

VZCZCXRO9374
RR RUEHGH RUEHVC
DE RUEHCN #0293/01 3530916
ZNR UUUUU ZZH
R 180916Z DEC 08
FM AMCONSUL CHENGDU
TO RUEHC/SECSTATE WASHDC 3045
INFO RUEHOO/CHINA POSTS COLLECTIVE
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHCN/AMCONSUL CHENGDU 3708

UNCLAS SECTION 01 OF 02 CHENGDU 000293

SENSITIVE
SIPDIS

DEPT FOR EAP/CM

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [CH](#)

SUBJECT: SOUTHWEST CHINA: QUAKE RECONSTRUCTION AND ECONOMIC STIMULUS
PLAN

CHENGDU 00000293 001.2 OF 002

[11](#). (U) This cable contains sensitive but unclassified
information - not for distribution on the internet.

[12](#). (SBU) SUMMARY: According to two prominent researchers in
Chengdu, the national-level economic stimulus plan will bolster
Sichuan Province's economy during the two to three year window
set by the central government for the completion of earthquake
reconstruction. Sichuan may have difficulty mobilizing the
resources required to absorb stimulus funding over such a short
period of time, however. The longer term prospects for 9 - 10
percent economic growth in the province are also unclear. END
SUMMARY.

Earthquake Relief for Provincial Economy

[13](#). (SBU) The Director the Macro-Economic Research Institution at
the Sichuan Academy of Social Sciences, Sheng Yi, told us this
month that China would allocate nine percent of the recently
announced four trillion Renminbi (RMB) economic stimulus package
to rebuild quake-affected areas, which are nearly all in Sichuan
Province. He said additional stimulus money may come to
undertake approved, but previously unfunded projects included in
the 11th Five-Year Plan. All of this funding would supplement
existing commitments by provincial and municipal governments
outside the province to partner with quake-affected Sichuan
counties to provide earthquake reconstruction assistance.

[14](#). (SBU) Sheng expressed optimism that government-directed funds
flowing into Sichuan would buoy the province's economy. Wang
Xiaogang, the Director of Sichuan's Economic and Development
Research Institute, shared Sheng's view that earthquake
rebuilding funds would enable Sichuan to continue relatively
rapid economic growth for the next 2-3 years. At the same time,
however, Wang disagreed with Sheng as to how much stimulus money
Beijing would allocate for earthquake rebuilding. Wang said
that Beijing had not established a fixed percent of stimulus
funding for use in Sichuan, but he did concede that Sichuan
would need to rely on central government assistance for
rebuilding. He implied that most of the 3 trillion RMB (about
USD 437 billion) that Sichuan plans to spend - some of which
will be used for rebuilding - would actually come from the

central government.

Can Sichuan Spend the Money Fast Enough?

15. (SBU) Despite this optimism, the challenge for Sichuan's economy may be the ability of cities and townships in the quake-affected areas to convert money from Beijing into effective rebuilding projects. Congenoffs recently visited Dujiangyan, a city northwest of Chengdu, where roughly 80 percent or more of the structures in certain neighborhoods suffered significant structural damage. In the areas we visited, however, demolition of most damaged structures had yet to begin. We saw a school that had been razed, but we saw no signs of school reconstruction; only a small crew of roughly 6-8 workers was building a brick irrigation ditch.

16. (SBU) A consulate contact working in Mianzhu, a city north of Chengdu, told Congenoff recently that only a small percentage of the city had been rebuilt as of mid-December. He said that Mianzhu's rebuilt schools and hospital were likely among the nicest in China, but he was skeptical that local governments in Sichuan could mobilize enough construction workers and heavy equipment to complete reconstruction over the next two years.

Mixed Views on Longer Term Outlook

CHENGDU 00000293 002.2 OF 002

17. (SBU) Sheng is optimistic that the economic momentum from earthquake rebuilding will dovetail with government plans for longer term economic recovery in Sichuan. He says that projects under the "10 National Measures" (Guo Shi Tiao) will help stimulate spending in rural areas. One initiative promoted by Sichuan's government that Sheng believes holds particular promise is a plan to make household electrical appliances available to rural villagers at low prices. Some other efforts to boost consumption are already underway. Local press reports that the city government of Chengdu (population 10 million) is issuing about USD 5.5 million worth of 100 RMB (about USD 15) coupons to roughly 380, 000 poor and disabled residents. The coupons expire at the end of January 2009, and must be used at local grocery and convenience stores.

18. (SBU) Sheng also has confidence that rural residents will purchase houses in Sichuan's major cities and resuscitate the market. He reasons that rural residents in their 20s - 30s will receive financial support from their parents to buy houses in urban areas. These consumers, according to Sheng, might decide to buy into a declining market because they recognize the long-term value of having a house in the city.

19. (SBU) Wang is more pessimistic. He argues that consumer spending has limited capability to spur economic recovery in Sichuan, where consumption accounts for only 30 percent of GDP. He says that private sector investment is the key to sustained economic growth beyond the earthquake rebuilding projects. Investment currently accounts for about 50-60 percent of GDP growth. Private sector investors are becoming more cautious,

however, and the provincial government increasingly relies on funding from Beijing to make local investments. Investment in Sichuan from China's coastal provinces is also shrinking amidst the economic downturn.

¶10. (SBU) Comment: We find the divergence of opinions between two researchers who hold director-level positions in Sichuan's government research institutions to be noteworthy. We have heard similar views from other local contacts. An underlying factor that appears to drive the divergent economic outlooks is the prospects for economic recovery in coastal provinces. Post will continue to seek the views of researchers, government officials, and other knowledgeable interlocutors who can provide additional details on this topic.
BOUGHNER